

ORIGINAL

(63)
RB10/11

UNITED STATES DISTRICT COURT
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA
(Harrisburg Division)

UNITED STATES FIDELITY AND
GUARANTY COMPANY,
Plaintiff

v.

BRUCE J. BROWN and BROWN
SCHULTZ SHERIDAN & FRITZ,
Defendants.

CIVIL ACTION NO. 1:01-CV-00813

JUDGE CONNOR

MJ Smyser

FILED
HARRISBURG, PA

OCT 10 2002

AFFIDAVIT OF STEVE J. DEBRUYN, CPA IN OPPOSITION
TO THE DEFENDANTS' MOTION FOR SUMMARY JUDGMENT

MARY E. D'ANDREA, CLERK
Deputy Clerk

Steve J. DeBruyn, on oath, deposes and says as follows:

1. I am a Certified Public Accountant and a partner in the firm of Clifton, Gunderson LLP ("Clifton Gunderson"). I also serve as Clifton Gunderson's Construction Contractor Industry Group Leader. A copy of my resumé is attached hereto as Exhibit "A".

2. I have been engaged by counsel for the plaintiff, United States Fidelity and Guaranty Company ("USF&G"), to determine if I could render certain opinions concerning the audit procedures performed by, and the conclusions reached with respect to, the audited financial statements prepared by the Defendants for CCI Construction Company, Inc. for the fiscal years ended December 31, 1996, 1997 and 1998. I have previously determined that I was able to render such opinions.

Facts and Other Materials Relied Upon

3. I am making this affidavit in opposition to the Defendants' Motion for Summary Judgment. The facts upon which I relied upon in connection with my opinions are as follows:

- Brown Schultz Sheridan & Fritz (“Brown Schultz”) audit work papers for CCI for the fiscal years ended December 31, 1996, 1997 and 1998;
- Brown Schultz’ “Permanent File” for CCI.
- The depositions of Bruce J. Brown, Sherri Phillips and Deborah Bowman;
- Various pleadings filed in the above-captioned action;
- 1998 Audited Financial Statements prepared by Brown Schultz for a company known as Pennsylvania Contractors Insurance Co. Inc. (“PCIC”);
- Brown Schultz’ work papers for the audit of PCIC for the fiscal year ended December 31, 1998; and,
- Work-in-process schedule as of December 31, 1999 prepared by CCI.
- Horwath International Audit Manual (2000 Edition)

4. In addition to my knowledge and expertise in the fields of construction, accounting and auditing, I also considered the following standards, rules and treatises with respect to which accountants are required to follow in the performance of accounting and auditing work or materials reasonably relied upon by auditors in connection with audit and accounting services:

- Accounting Research Bulletin No.45 (ARB 45), Long-Term Construction Type Contracts
- AICPA Technical Practice Aids - Statement of Position 81-1, Accounting for Performance of Construction-Type in Certain Production-Type Contracts, July 15, 1981;

- AICPA Audit and Accounting Guide for Construction Contractors, May 1, 1997;
- Statement on Auditing Standards No. 47, Audit Risk & Materiality in conducting an audit (American Institute of Certified Public Accountants, 1983);
- Statement on Auditing Standards No. 57, Auditing Accounting Estimates (American Institute of Certified Public Accountants, 1988);
- FAS No. 5, Accounting for Contingencies, March 1975;
- FAS No. 57, Related Party Disclosures, March 1982;
- Statement of Auditing Standards No. 22, Planning and Supervision (American Institute of Certified Public Accountants (1978); and,
- Statement of Auditing Standards No. 31, Evidential Matter (American Institute of Certified Public Accountants (1980).
- AICPA Audit Risk Alert, Construction Industry Developments – 1998/99 (Issued November, 1998).
- Other standards and regulations promulgated by the American Institute of Certified Public Accountants.

5. Independent auditors performing audit work for construction contractors are required to perform this audit work in accordance with the AICPA Audit and Accounting Guide for Construction Contractors (the “Audit Guide”). Section 1.12 – 1.17 of the Audit Guide includes a primer on construction surety bonding and the pre-qualification process which most sureties employ. The Glossary part of the Audit Guide includes a description of “Bonding Capacity” which reads as follows:

“The total dollar value of construction bonds that a surety will underwrite for a contractor, based on the surety’s predetermination of the overall volume of work that the contractor can handle.”

My Opinion

6. For reasons explained below, it is my opinion that the audit work performed by Brown Schultz for CCI for the fiscal years ended December 31, 1997 and 1998 did not conform to the applicable standards of care of a certified public accountant and such non-conformance resulted in material misstatements and omissions in the 1997 and 1998 audit reports for CCI prepared by Brown Schultz. It is also my opinion that the misstatements and omissions were material to the financial position of CCI.

Basis for My Opinions

7. Brown Schultz’ workpapers demonstrate Brown Schultz’ failure to properly address the risk involved with its audits of CCI for the years ending December 31, 1996, 1997 and 1998. Because of this failure to properly address the risks associated with CCI, Brown Schultz’ audit programs and its audit fieldwork were inadequate to provide the required assurance that the 1996, 1997 and 1998 audit reports (the “Audit Reports”) were conducted in accordance with Generally Accepted Auditing Standards (“GAAS”). These procedures are required to be followed by Certified Public Accountants, such as Brown Schultz, in the performance of audit work.

8. GAAS comprises the standards and procedures which must be followed in the planning, preparation and issuance of an audit report by a Certified Public Accountant. One of GAAS’ requirement is that audit fieldwork must be “adequately planned and properly supervised.” SAS No. 22, AU Section 311. The basis for an adequately planned audit is the assessment of risk. While Brown Schultz’ workpapers identified high-risk characteristics in CCI

and in CCI's individual construction contracts as noted below including the fact that USF&G was a "significant creditor" and user of the financial statements, Brown Schultz' audit plan work papers for 1996, 1997 and 1998 were virtually identical to each other and did not reflect any consideration of or additional testing procedures for any of the increased audit risks inherent in the CCI audit engagement. Further, not only did the audit plan remain intact during this period, the actual audit work performed by Brown Schultz for the fiscal years ended December 31, 1996, 1997 and 1998 did not change significantly from year to year either. This is significant, in my opinion, in light of the fact that CCI's audit risk profile increased for 1996 through 1998 due to, among other things, the following:

- A significant dollar volume of work was being performed by CCI's subcontractors. This should have led the auditor to consider audit procedures directed at testing subcontract costs. For example consideration should have been given to a review of CCI's subcontractor agreements, confirmations with subcontractors, review and testing of significant subcontractor costs accumulated to date and estimated costs to complete;
- Brown Schultz' knowledge of and its documentation in its audit work papers of past and present claims and defaults with respect to CCI's subcontractors;
- CCI's expansion in new, non-contiguous states;
- Profit fades as acknowledged by Brown Schultz in its audit work papers on CCI's contracts completed in subsequent years. [Profit fades are declines in the estimated or the interim profits (or losses) at the end of the preceding year to the project's actual performance at its completion. Profit fades can be due to a number of factors ranging from the contractor's performance to the default or insolvency of its subcontractors or suppliers. It can also signify that the contractor's original estimate of

its costs to perform the work and its profits were inaccurate.] The primary objective of the auditor is to determine the level of reliance that can be placed by the auditor on the contractor's estimated costs to complete the project. It is the auditor's job to perform sufficient testing and analysis to determine whether the contractor's estimates of its costs and profits is sound and reasonable. In light of the profit fades on a number of CCI projects, Brown Schultz was required under GAAS, in my opinion, to question the reliability of CCI's estimates and its costs to complete contracts in progress and estimated profits thereon;

- By the end of 1997 and throughout 1998, CCI was self-performing some contract work which had previously subcontracted out to others and it also purchased approximately \$6-7 million worth of new construction equipment in connection with its new self-performing work;

- CCI was not properly allocating all indirect costs to individual contracts. This had the effect of artificially inflating CCI's profits (or reducing losses) on individual projects. This is important for any user of CCI's audit reports who is interested to see how profitable CCI's contract work was or, alternatively, how much CCI was losing on individual contracts; and,

- The presence of significant-related party transactions including, CCI's relationship with Pennsylvania Contractors Insurance Co., Inc. ("PCIC"). The significance of the CCI/PCIC transactions is discussed in greater detail, *infra*.

9. It is my further opinion that there were inadequate audit procedures performed by Brown Schultz in such important areas as CCI's contracts-in-progress generally and, specifically, the design and implementation (or the lack of) substantive audit procedures in connection with

accumulated costs and estimated costs to complete of CCI's contracts. Section 10.33 of the AICPA Audit Guide For Construction Contractors states "One of the most important phases of the audit of a construction contractor relates to estimated costs to complete contracts in process, since that information is used in determining the estimated final gross profit or loss on contracts." In particular, Section 10.33 states "Because of the direct effect on the estimated interim and final gross profit or loss on the contract, the auditor should evaluate whether the contractor's estimate of costs to complete is reasonable." The audit guide further states that to achieve this, the auditor should "1) critically review representations of management, 2) obtain explanations of apparent disparities between estimated and past performance on contracts, experience on other contracts, and information gained in all other phases of the audit, and 3) document the results of work in these areas." In my opinion, Brown Schultz, in violation of the AICPA Audit Guide For Construction Contractors, unduly relied on CCI management's assertions with respect to costs-to-complete and estimated profits on the CCI contracts. The determination of the accuracy of the accumulated costs to date and the estimated costs-to-complete is critical to contractors like CCI using the percentage of completion method of accounting. The percentage of completion method recognizes revenue based on costs incurred to date divided by total estimated costs on the job, multiplied by the contract amount.

10. It is also my opinion that Brown Schultz placed undue reliance on CCI's management to substantiate significant estimates in the estimated costs-to-complete in the 1996, 1997 and 1998 Audit Reports. Brown Schultz relied on CCI's representations as to such costs with no documentation substantiating the fact that CCI's management estimates were reasonable other than the fact that they had allegedly been verified by Sherri Phillips, CCI's Chief Financial Officer and/or Stan Sechrist, CCI's Vice President - Construction Operations. It

does not appear that Brown Schultz understood the requirements of SAS No. 57, Auditing Accounting Estimates (Professional Standards, AU Section 342), and did not follow the guidelines to properly assess the reasonableness of CCI's management estimates. In addition, it does not appear that Brown Schultz followed the Horwath International Audit Manual with respect to "basic" approaches to evaluate accounting estimates. The requirements include;

- Reviewing and testing management's process used to develop the estimates;
 - Developing an independent expectation to corroborate management's estimates;
- and,
- Reviewing subsequent events and transactions.

11. To the contrary, Brown Schultz' work papers show that in 1998, CCI was estimating gross profits on several contracts-in-progress that were materially higher than the historical or originally projected amounts. Subsequent review of these projects revealed that these contracts had significant profit fades, and one job - no. 454, Albemarle Prison - had a loss of approximately \$957,000.00, and profit fade based on Brown Schultz' 1998 workpapers of approximately \$2,600,000. Also, Brown Schultz' 1998 workpapers' files contained no evidence of any consideration by it of the allocation of indirect costs to estimated costs-to-complete, other than two projects, despite Brown Schultz' knowledge that CCI was self-performing more of its subcontract work than in the past. In addition, there was no follow up between the documented preliminary analytical review work and the final work, despite a material increase in the contracts in progress schedule. Brown Schultz also failed to document the reasons for the significant underbillings reported at the end of the 1998 year. The Horwath International Audit Manual, a manual which, on information and belief, Brown Schultz used as an audit guide for its CCI audits, in section 12.049, specifically addresses the procedures to follow if unbilled construction

receivables are significant, including the physical inspection of construction sites and architects' or engineers' reports, and, possibly, obtaining assistance from outside specialist. Job site visits were never conducted by Brown Schultz and the reasons therefor were not documented in Brown Schultz' work papers.

12. Also, in my opinion, Brown Schultz testing of accumulated job costs was incomplete. In its CCI audit workpapers, Brown Schultz acknowledged that its testing of 25 of CCI's cost transactions was only a test of CCI's cost controls. That is to say, no specific testing of CCI's contract costs was done. This was incorrect under the circumstances extant. The testing of 25 costs allows the auditor to make qualitative assessments about a contractor's cost controls. However, such testing does not replace the need to perform substantive procedures, such as vouching (ascertaining the truth of) significant contract costs and analytical review.

13. In my opinion, Brown Schultz failed to properly test the direct cost related to subcontractors. CCI had significant and substantiated direct costs related to subcontractors and there was documentation in Brown Schultz' workpapers relating to past and present claims between CCI and its subcontractors as well as evidence of subcontractor defaults. In fact, in the December 31, 1996 financial statements of CCI, Brown Schultz footnoted that the reason for losses on certain projects was "caused by additional costs associated with subcontractor defaults and the related legal expenses to defend those cases" Nonetheless, Brown Schultz did not send out any confirmations of amounts owed by CCI to CCI's subcontractors, nor did Brown Schultz' "Permanent Files" or its other work papers document that it reviewed CCI's subcontracts and other, similar construction agreements. In addition, Brown Schultz specifically excluded any job related expenses in its testing of unrecorded liabilities. Instead, as noted above,

Brown Schultz relied on a test of 25 selected costs throughout each year - for contract testing purposes only - and there was no evidence in Brown Schultz' workpapers that it performed any analytical procedures related to accumulated job costs.

14. There was also no evidence in Brown Schultz' workpapers for the 1996, 1997 and 1998 Audit Reports that Brown Schultz read one or more of the contracts for guarantees or any penalty and/or incentive provisions or cancellation and postponement provisions. Paragraph 10.16 of the AICPA Audit Guide For Construction Contractors states in part "A careful reading of the contract is required to identify guarantees or contingencies associated with a project."

15. Brown Schultz' audit planning and its audit procedures fell below those which applicable standards of care of a certified public accountant performing in the audit of CCI's financial statements. In particular, Brown Schultz failed to conform its audit work for CCI to the following standards:

- GAAS requires all auditors to exercise "due professional care...in the performance of the audit and the preparation of the report." SAS No. 1, AU Section 230. Included in the foregoing section, is the fact that due professional care requires the auditor to exercise professional skepticism. Based upon my review of Brown Schultz audit work papers for the years 1996, 1997 and 1998 and its Audit Reports for those years, it is my opinion that Brown Schultz failed to act with sufficient professional skepticism and was not diligent in evaluating audit evidence;

- GAAS also requires that audit field work must be "adequately planned and properly supervised." SAS No. 22, AU Section 311. As noted above, Brown Schultz' planning documentation for the audit reports for 1996, 1997 and 1998 remain virtually

unchanged despite the fact that CCI had experienced significant growth in those years, was self-performing more work, CCI had experienced significant profit fades on a number of jobs, that CCI had begun to expand geographically and the presence and reliance of third party users of the financial statements;

- Brown Schultz also failed to properly address the risks involved in the audit of CCI and, consequently, Brown Schultz did not modify or change its audit procedures or its approach to the audit work for CCI. SAS No. 1, AU Section 230 and SAS No. 22, AU Section 311; and

- Further, Brown Schultz' limited its testing of, among other things, accumulated job costs, subcontractor costs and subsequent disbursement of job costs. Accordingly, in my opinion, Brown Schultz failed to insure during its performance of audit field work for CCI that "sufficient competent evidential matter...was obtained...." SAS No. 31, AU Section 326.

Brown Schultz' Inappropriate Recording and Inadequate Disclosure of Related
Party Transactions Between PCIC and CCI

16. PCIC was owned by CCI's sole stockholder, John Ortenzio. PCIC was a related party to CCI. See FAS No. 57, Related Party Disclosures, March 1982. Based upon my review of Brown Schultz' 1998 audit work papers, PCIC issued a Guaranty Agreement guaranteeing full payment of a CCI claim in the amount of \$1,162,460.00 against the Commonwealth of Pennsylvania on Job Number 439, Mahanoy Prison. Brown Schultz also performed the audit work for PCIC for a number of years. The CCI claim of \$1,162,460.00 did not meet the recognition standards set forth in AICPA Technical Aids, Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, July

15, 1981. Further, in my opinion, the Guaranty Agreement executed by PCIC in favor of CCI and dated less than a month before the close of CCI's books for the year ended December 31, 1998 did not support the recognition of \$1,162,460.00 in revenue for CCI for the year ended December 31, 1998 as recorded in the 1998 audited financial statements. SOP 81-1, para. 65 states that recognition of additional contract revenue relating to claims is appropriate when it is "probable" the claim will result in additional revenue and the amount can be reliably estimated. In satisfying those requirements, Brown Schultz failed to document or provide evidence that:

- There was a legal basis for the claim or a legal opinion had been obtained. SOP 81-1 (par. 65 a.).
- The evidence supporting the claim was objective and verifiable and not based upon management's "feel" for the situation or on unsupported representations. SOP 81-1 (par. 65 d.).

17. In addition, the recording and disclosure of the related-party transaction involving PCIC and CCI in the 1998 financial statements was misleading to the user of that report since the PCIC Guaranty was recorded by Brown Schultz as contract revenue and therefore recorded as an underbilling (buried in the contracts-in-progress schedule) as opposed to a separate line item on the balance sheet clearly denoted as being a related-party transaction. The result was a material misstatement in the 1998 Audit Report of \$1,162,460.00 incorrectly reported as revenue. An appropriate disclosure would have been to report the transaction as a separate line item on the balance sheet of CCI indicating that it was specifically guaranteed by a company owned by the sole stockholder of CCI.

18. In addition, Brown Schultz' workpapers demonstrate that Brown Schultz' work was also deficient in the following areas:

- Lack of documentation of time to indicate that the partner-in-charge of the audit participated in audit planning in 1998;
- The financial statement disclosure checklist included in the Brown Schultz audit workpapers do not appear to have been reviewed;
- The search for Unrecorded Liabilities in the 1998 Brown Schultz workpapers did not go through the last day of Brown Schultz' fieldwork performed in connection with the audit.

The Audit Reports as Restated

19. Based upon my analysis of the facts and other materials enumerated previously in this Affidavit, the 1997 and 1998 Audit Reports required substantial restatements as a result of the inadequate audit work performed by Brown Schultz. Although I also found that the audit work performed in connection with the 1996 Audit Report was deficient, it did not result in any material misstatements in my opinion.

20. Attached hereto as Exhibits B-1 and B-2 are the original and restated schedules of CCI's contracts-in-progress for the year ended December 31, 1997. In general, as shown on Exhibit B-1, the 1997 work-in-progress schedule prepared by Brown Schultz showed a gross profit on all contracts-in-progress of \$1,587,367.00 on total revenue of \$29,051,753.00. In contrapose, Exhibit "B-2" shows that, as restated by me, CCI's contracts-in-progress for 1997 result in a **decrease** in revenue and gross profits of \$815,960.00.

21. Among other things, the methodology employed by me in preparing Exhibits B-1 and B-2 consisted of utilizing financial data contained in Brown Schultz' work papers, comparing it to the original profit (or loss) estimates for contracts-in-progress as reported in the

Brown Schultz audited financial statements when each project began and also comparing it to the profit or loss for each of the projects upon completion. Exhibits C-1 through C-7 attached hereto contain each of the contracts-in-progress which I analyzed and restated with respect to the 1997 Brown Schultz audited financial statement. For example, Exhibit C-1 contains a spreadsheet for CCI project number 426, the U.E.P.H. Complex project ("U.E.P.H."). The original profit estimate for U.E.P.H. as reported by Brown Schultz in its 1997 audit work papers was 3.52%. As reported in Brown Schultz' audit reports for the years ended December 31, 1996, 1997 and 1998, U.E.P.H. purportedly had a gross profit in each of those years of 10.02%, 10.61% and 9.30% respectively or roughly three times the original profit estimate. Upon completion, U.E.P.H. had an 8.7% profit. The Brown Schultz work papers for U.E.P.H. failed to document, in accordance with GAAS standards, sufficient evidential material to support the reported gross profits (ranging from 9.30% to 10.61%) in the years 1996 through 1998. Thus, I employed the gross profit percentage earned at the completion of U.E.P.H. - 8.71%. . The methodology used is reasonable in light of the following:

- This method avoids the abuse or intentional misstating of profits that is inherent in the use of the percentage of completion method of accounting;
- This method is conservative in its approach since it used the profit or loss amounts reported by CCI upon project completion. In fact, on some contracts employing CCI's original profit estimates as documented in Brown Schultz' audit workpapers would have resulted in an even larger difference between the audit reports and my restatements. Due to the deficient auditing procedures employed by Brown Schultz, they did not give themselves an opportunity to determine possible problems in the individual contracts; and,

- This method also recognizes profits (or losses) on the contracts based on actual events and transactions in the appropriate year to gain an understanding of the effect of CCI's representation in the estimated costs to complete.

22. Attached hereto as Exhibits D-1 and D-2 are, respectively, the original and the restated contracts-in-progress schedules for CCI for the year ended December 31, 1998. Exhibit D-1 is the contract-in-progress schedule prepared by Brown Schultz for the period ending December 31, 1998 and it shows a gross profit of \$3,332,292.00 on total revenues of \$38,721,607.00. In contrapose, the restated contracts-in-progress - Exhibit D-2 - for the period ended December 31, 1998 shows a decrease in revenues and gross profit of \$3,126,508.00. This represents a difference over the years 1997 and 1998 of \$3,942,467.00.

23. Exhibits E-1 through E-10 attached hereto contain each of the contracts-in-progress which I analyzed and restated with respect to the 1998 Brown Schultz audited financial statement. Exhibit E-4, for example, contains a spreadsheet for CCI project no. 454, the Abermarle Prison project ("Abermarle"). The original profit estimate for Abermarle as reported by Brown Schultz in its work papers was 6.63%. As reported in Brown Schultz' audit reports for the years ended December 31, 1998, Abermarle purportedly had a 11.35% profit in 1998. As of December 31, 1999, Abermarle had a reported -6.59% loss. The Brown Schultz work papers for Abermarle failed to document, in accordance with GAAS standards, sufficient evidential material to support the reported gross profit in 1998 of 11.35%. In addition, the workpapers documented problems with the design and the architect on the project.

24. I took the information concerning contracts-in-progress as well as other adjustments and prepared for CCI a balance sheet and statement of income for the years ended December 31, 1997 and 1998 and compared that information to the information contained in the

1997 and 1998 Audit Reports. Those comparison reports are attached hereto as Exhibits F-1 and F-2. In summary, the 1997 Audit Report prepared by Brown Schultz had the following line item entries relevant to this analysis:

- Income from Operations \$349,823.00
- Other Income: \$357,056.00
- Net Income (Loss): \$706,879.00

25. As restated, the foregoing line items reveal the following:

- Income (Loss) from Operations (\$466,137.00)
- Other Income \$ 357,056.00
- Net Income (Loss) (\$109,081.00)

26. Thus, the difference between the above-referenced line items in the 1997 Audit Report and in the Restated report shows that CCI's profit of \$706,879.00 was actually a loss of \$109,081.00.

27. Similarly, the 1998 Audit Report prepared by Brown Schultz showed the following:


- Loss from Operations (\$116,629.00)
- Other Income \$ 175,670.00
- Net Income (Loss) \$ 59,041.00

28. As restated, however, the foregoing line items reveal the following:

- Income (Loss) from Operations (\$ 3,238,137.00)
- Other Income \$ 175,670.00
- Net Income (Loss) (\$ 3,067,467.00)

29. The difference between the 1998 Audit Report and the restated report for 1998 shows that CCI's profit of \$59,041.00 was actually a loss of \$3,067,467.00.

Signed under the pains and penalties of perjury this 8th day of October, 2002.


Stephen J. DeBruyn, CPA

#254700 v1/36432/87

A

EXHIBIT A

CURRICULUM VITAE

STEPHEN J. DEBRUYN, CPA

POSITION

Partner

EDUCATION

B.S. in Accounting
Southern Illinois University, 1982

PROFESSIONAL DESIGNATIONS

Certified Public Accountant, 1984
American Institute of Certified Public Accountants
Illinois CPA Society

LICENSES

Licensed CPA - Illinois

YEARS OF EXPERIENCE

20

PRIOR EXPERIENCE

7 years with audit staff of large regional firm. Promoted to manager in 1986, joined Clifton Gunderson June, 1989, promoted to Partner in 1993.

SUPERVISORY EXPERIENCE

Partner in charge of various audit, review and compilation engagements servicing manufacturers, contractor, retail and wholesale industries as well as employee benefit plans.

Supervision of staff on multiple concurrent engagements.

AREAS OF SPECIALIZATION

Firm-wide Construction Industry Group Leader

Audit, accounting and consulting services for various industries and employee benefit plans.

Corporate finance; merger and acquisition services.

Peer reviews and internal inspection programs.

Consulting services in connection with prospective financial statements, executive search, interpretation of financial results, succession of ownership and business valuations.

Stephen J. DeBruyn (continued)

Income tax planning and preparation for corporations, S-corporations, partnerships and L.L.C.s.

**OTHER SIGNIFICANT
EXPERIENCES IN
PUBLIC ACCOUNTING**

Advanced training through experience with previous employer in areas of audit efficiencies, documentation of accounting systems in manual or automated environments.

Speaker at annual audit and accounting conference.

Selected to the firms Leadership Career Program class of 1994.

1997 Clifton Gunderson Outstanding Performance Award.

PUBLICATIONS

Speaker at the Clifton Gunderson Annual Audit & Accounting Conference. Sessions on Construction Contractors.

October, 2000

October, 1999

October, 1998

Improved Software Keeps Construction Companies Ahead of Competitors, Clifton Gunderson LLP Relationships Magazine, Issue 6 Summer 2002.

**PREVIOUS TRIAL
EXPERIENCE**

IN RE: Marriage of Lawrence Edward Kuchefski, Petitioner and Sherri Marie Kuchefski, Respondent, Cause #99D284 Circuit Court for the 5th Judicial Circuit of Illinois located in Danville, Illinois, March 2002.

B

EXHIBIT B-1

EXHIBIT B-1

CCI CONSTRUCTION COMPANY, INC.

CONTRACTS-IN-PROGRESS

DECEMBER 31, 1997

Job number	Project	Inception to December 31, 1997			December 31, 1997			Year ended December 31, 1997		
		Total contract price	Estimated total direct contract costs	Estimated total contract earnings (loss) before indirect costs	Direct contract costs to December 31, 1997	Contract earnings (loss) accrued to December 31, 1997	Billings to December 31, 1997	Costs and estimated earnings in excess of billings	Billings in excess of estimated earnings	Gross profit (loss) before indirect costs
426	U.E.P.H. Complex	\$ 18,961,022	\$ 16,948,701	\$ 2,012,321	\$ 15,878,479	\$ 1,885,254	\$ 16,899,942	\$ 863,791	\$ 262,692	\$ 17,258,553
439	Mahanoy Prison	10,289,145	10,523,764	(234,619)	6,309,222	(234,619)	6,337,295	6,309,222	6,074,803	15,422,131
445	Houtzdale Prison	10,357,787	10,440,743	(82,956)	4,169,371	(82,956)	4,349,670	4,169,371	4,086,415	6,309,222
448	Outlook Pointe	4,604,000	4,328,590	275,410	521,254	33,165	509,198	45,221	554,419	4,169,371
449	U.E.P.H. Headquarters	1,387,666	1,374,859	12,807	515,339	4,800	473,383	46,756	520,139	521,254
450	Johnstown	3,268,600	3,237,111	29,489	115,461	1,052	599,088	116,513	116,513	515,339
451	Lord Fairfax	6,890,993	6,391,785	499,208	411,608	31,503			443,111	115,461
		\$ 55,747,213	\$ 53,245,553	\$ 2,501,660	\$ 27,920,734	\$ 1,638,199	\$ 29,168,576	\$ 1,072,281	\$ 681,924	\$ 27,464,386
										\$ 1,834,422
										(234,619)
										(82,956)
										33,165
										4,800
										1,052
										31,503

EXHIBIT B-2

EXHIBIT B-2

[illegible]

C

EXHIBIT C-1

Job #:
Job Name:
Year Started:

426
U.E.P.H. Complex
1996

	Inception	As reported 12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98	Contract 12/31/99
Original Contract	16,419,918	16,419,918	16,419,918	16,419,918	16,419,918	16,419,918
Modifications		10,845	2,541,104	2,541,104	2,852,338	2,852,338
Contract Amount	16,419,918	16,430,763	18,961,022	18,961,022	19,272,256	19,272,256
Estimated Costs	15,842,225	14,783,976	16,948,701	17,308,948	17,479,889	17,593,112
Gross Profit	577,693	1,646,787	2,012,321	1,652,074	1,792,367	1,679,144
Gross Profit %	3.52%	10.02%	10.61%	8.71%	9.30%	8.71%
Percent complete		3.08%	93.69%	91.74%	100.00%	100.00%

Effect on gross Profit (369,731)

Notes:

The job was recast using the final gross profit percentage of 8.71%. Brown Schultz accepted the gross profit %'s in 1996 and 1997 which were above historical %'s and greater than CCI's original estimate. There was no support in the workpapers to substantiate the increase in gross profit from the clients original estimate. Historical gross profits on contracts for CCI ranged from .16% to 6.46% for the years 1994 - 1998.

Legend:

Inception	From the 1997 Brown Schultz workpaper file, column labeled "original contract".
As reported	From the audited financial statement for the respective year prepared by Brown Schultz.
Recast	Also agrees with audit workpaper file.
Contract	As recast in the expert's revised contracts in progress schedule. As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT C-2

439
Mahanoy Prison
1997

Effect on gross Profit	16
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Legend:

Recast Contract

EXHIBIT C-3

Job #:
Job Name:
Year Started:

445
Houtzdale Prison
1997

	Inception	12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98	Contract 12/31/99
Original Contract	10,286,000	-	10,286,000	10,286,000	10,286,000	-
Modifications	-	-	71,787	71,787	651,202	-
Contract Amount	10,286,000	-	10,357,787	10,357,787	10,937,202	-
Estimated Costs	10,086,304	-	10,440,743	10,793,850	11,397,234	-
Gross Profit	199,696	-	(82,956)	(436,063)	(460,032)	-
Gross Profit %	1.94%	#DIV/0!	-0.80%	-4.21%	-4.21%	#DIV/0!
Percent complete			39.93%	38.63%	100.00%	

Effect on gross Profit (353,107)

Notes:

The job was estimated as a loss as of 12/31/97. We recast using the total loss on the contract at completion.. There was nothing in the workpapers to support that Brown Schultz did any work to determine how significant the loss would be. Once a loss is determined it would have been prudent to challenge management's estimates to determine that the entire loss was accrued at 12/31/97.

Legend:

Inception	From the 1997 Brown Schultz workpaper file, column labeled "original contract".
As reported	From the audited financial statement for the respective year prepared by Brown Schultz.
Recast	Also agrees with audit workpaper file.
Contract	As recast in the expert's revised contracts in progress schedule. As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT C-4

Job #:
Job Name:
Year Started:

448
Outlook Pointe
1997

	Inception	12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98	Contract 12/31/99
Original Contract	4,606,000	-	4,606,000	4,606,000	4,606,000	4,606,000
Modifications		-	(2,000)	(2,000)	194,644	250,021
Contract Amount	4,606,000	-	4,604,000	4,604,000	4,800,644	4,856,021
Estimated Costs	4,472,288	-	4,328,590	4,435,033	4,655,443	4,677,876
Gross Profit	133,712	-	275,410	168,967	145,201	178,145
Gross Profit %	2.90%	#DIV/0!	5.98%	3.67%	3.02%	3.67%
Percent complete			12.04%	11.75%	100.00%	100.00%
				Effect on gross Profit		(13,306)

Notes:

The job was recast using the final gross profit percentage of 3.67%. As of 12/31/97 the job was only 12% complete and the original estimate was 2.90%. Management and Brown Schultz supported the higher gross profit without any additional work.

Legend:

Inception	From the 1997 Brown Schultz worksheet file, column labeled "original contract".
As reported	From the audited financial statement for the respective year prepared by Brown Schultz.
Recast	Also agrees with audit worksheet file.
Contract	As recast in the expert's revised contracts in progress schedule.
	As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT C-5

Job #:
Job Name:
Year Started:

449
U.E.P.H. Headq.
1997

	Inception	12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98
Original Contract	1,387,666	-	1,387,666	1,387,666	1,387,666
Modifications	-	-	-	-	68,892
Contract Amount	1,387,666	-	1,387,666	1,387,666	1,456,558
Estimated Costs	1,326,311	-	1,374,859	1,449,695	1,521,701
Gross Profit	61,355	-	12,807	(62,029)	(65,143)
Gross Profit %	4.42%	#DIV/0!	0.92%	-4.47%	-4.47%
Percent complete			37.48%	35.50%	100.00%

Effect on gross Profit (66,829)

Notes:

The job was recast using the actual gross profit/(loss) % at completion of the job. Since the job was a loss, the entire loss would have been accrued at 12/31/97. The worksheets of Brown Schultz indicate problems with the job however there is no evidence of additional procedures to determine if a loss was probable.

Legend:

Inception	From the 1997 Brown Schultz worksheet file, column labeled "original contract".
As reported	From the audited financial statement for the respective year prepared by Brown Schultz.
Recast	Also agrees with audit worksheet file.
Contract	As recast in the expert's revised contracts in progress schedule.
	As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT C-6

Job #:
Job Name:
Year Started:

450
Johnstown
1997

	Inception	12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99
Modifications	3,266,600	-	3,266,600	3,266,600	3,266,600	3,266,600	3,266,600
Contract Amount	3,266,600	-	3,266,600	3,266,600	3,266,600	3,266,600	465,969
Estimated Costs	3,219,018	-	3,237,111	3,242,754	3,245,082	3,242,754	3,705,315
Gross Profit	47,582	-	29,489	23,846	21,518	23,846	27,254
Gross Profit %	1.46%	#DIV/0!	0.90%	0.73%	0.66%	0.73%	0.73%
Percent complete			3.57%	3.56%	36.14%	36.17%	100.00%
			Effect on gross Profit			848	

Notes:

For both 1997 and 1998 the job was recast using the actual gross profit % at completion of the job.

Legend:

Inception	From the 1997 Brown Schultz worksheet file, column labeled "original contract".
As reported	From the audited financial statement for the respective year prepared by Brown Schultz.
	Also agrees with audit worksheet file.
Recast	As recast in the expert's revised contracts in progress schedule.
Contract	As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT C-7

Inception	12/31/96	As reported	12/31/97	Recast	12/31/97	As reported	12/31/98	Recast	12/31/98	Contract	12/31/99
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Effect on gross Profit	(12,840)	(520,628)
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j:\02878\bgb\law\contract analysis_1997.xls

D

EXHIBIT D-1

CCI CONSTRUCTION COMPANY, INC.

EXHIBIT D-1

CONTRACTS-IN-PROGRESS

DECEMBER 31, 1998

Job Number	Project	Total contract price	Estimated total direct contract costs	Estimated total contract earnings (loss) before indirect costs	Inception to December 31, 1998				Year ended December 31, 1998			
					Direct contract costs to December 31, 1998	Contract earnings (loss) accrued to December 31, 1998	Indirect costs before	Billings to December 31, 1998	Costs and excess of earnings in excess of billings	Billings in excess of costs and estimated earnings	Revenues earned	Direct cost of revenues earned
439	Maharoy Prison	\$ 11,699,418	\$ 10,667,972	\$ 1,031,446	\$ 10,666,808	\$ 1,031,333	\$ 10,481,740	\$ 1,216,401	\$ 5,623,543	\$ 4,357,586	\$ 1,265,957	
450	Johnstown	3,266,600	3,245,082	21,518	1,172,766	7,776	730,724	449,818	1,064,029	1,057,305	6,724	
451	Lord Fairfax	7,082,984	7,301,111	(218,127)	6,659,984	(218,127)	6,570,468		5,998,746	6,248,376	(249,630)	
454	Albemarle Prison	14,524,840	12,875,751	1,649,089	4,819,694	617,292	4,719,426	717,560	5,436,986	4,819,694	617,292	
455	Perry Point	12,937,341	11,463,840	1,473,501	4,734,492	608,547	3,108,536	2,234,503	5,343,039	4,734,492	608,547	
456	Outlook - Hilliard	5,380,745	4,801,310	579,435	2,715,193	327,677	2,732,602	310,268	3,042,870	2,715,193	327,677	
457	Camp Hill	1,495,629	1,372,273	123,356	547,295	49,197	617,799	21,307	596,492	547,295	49,197	
459	Scott Air Force Base	14,870,150	13,929,350	940,800	6,026,575	407,040	6,571,905	138,290	6,433,615	6,026,575	407,040	
460	Germ Plasma Center	15,565,000	14,667,024	897,976	2,905,995	177,917	2,252,156	831,756	3,083,912	2,905,995	177,917	
461	Outlook - Chesterfield	3,842,372	3,629,824	212,548	1,518,251	88,902	1,097,444	509,709	1,607,153	1,518,251	88,902	
462	Outlook - Westerville	5,589,900	5,218,140	371,760	458,553	32,669	419,511	71,711	491,222	458,553	32,669	
		<u>\$ 96,254,979</u>	<u>\$ 89,171,677</u>	<u>\$ 7,083,302</u>	<u>\$ 42,225,606</u>	<u>\$ 3,130,223</u>	<u>\$ 39,302,311</u>	<u>\$ 6,341,726</u>	<u>\$ 288,208</u>	<u>\$ 38,721,607</u>	<u>\$ 35,389,315</u>	<u>\$ 3,332,292</u>

EXHIBIT D-2

98 WIP REVISED FOR ACTUAL GP%

E

EXHIBIT E-1

EXHIBIT E-1

Job #:
 Job Name:
 Year Started:

439	Inception	12/31/96	As reported 12/31/97	Recast 12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99
Mahanoy Prison							
1997							
Original Contract	10,066,600	-	10,066,600	10,066,600	10,066,600	10,066,600	10,066,600
Modifications	-	-	222,545	222,545	1,632,908	470,358	721,127
Contract Amount	10,066,600	-	10,289,145	10,289,145	11,699,508	10,536,958	10,787,727
Estimated Costs	10,107,709	-	10,523,764	10,523,738	10,667,972	10,667,972	10,704,600
Gross Profit	(41,109)	-	(234,619)	(234,593)	1,031,536	(131,014)	83,127
Gross Profit %	-0.41%	#DIV/0!	-2.28%	-2.28%	8.82%	-1.24%	0.77%
Percent complete			59.95%	59.95%	99.99%	99.99%	100.00%
				16 Effect on gross Profit		(1,162,434)	

Notes:

For 1997 we used the same amount as estimated by Brown Schultz since they were estimating a loss with the best information available at that time.

For 1998, the difference is in the total contract amount because we did not record the contingent gain of \$1,162K.

Legend:

Inception From the 1997 Brown Schultz workpaper file, column labeled "original contract".
 As reported From the audited financial statement for the respective year prepared by Brown Schultz.
 Also agrees with audit workpaper file.
 Recast As recast in the expert's revised contracts in progress schedule.
 Contract As reported on the schedules prepared by CCI as of 12/31/99.

EXHIBIT E-2

EXHIBIT E-3

EXHIBIT E-4

EXHIBIT E-4

Job #:
Job Name:
Year Started:

454
Abermarle Prison
1998

	Inception	12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99
Original Contract	13,335,600	-	13,335,600	13,335,600	13,335,600
Modifications		-	1,189,240	1,189,240	1,247,317
Contract Amount	13,335,600	-	14,524,840	14,524,840	14,582,917
Estimated Costs	12,451,265	-	12,875,751	15,482,027	15,544,471
Gross Profit	884,335	-	1,649,089	(957,187)	(961,554)
Gross Profit %	6.63%	#DIV/0!	11.35%	-6.59%	-6.59%
Percent complete			37.43%	31.13%	81.58%
			Effect on gross Profit		(1,574,441)

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99. The 11.35% profit margin was greater than any of the four previous years. In addition, the contract modification of \$1,189,240 only increased cost to complete by \$424,486 (or 64.6% margin). In addition, Brown Schultz workpapers identified a problem with the design and the architect on the job, but still accepted a significantly higher gross profit. Even if Brown Schultz would have used the original gross profit of 6.63%, the effect on the 1998 profit would have been a decrease of approximately \$275,000.

EXHIBIT E-5

EXHIBIT E-5

Job #:
 Job Name:
 Year Started:

455						
Perry Point						
1998						
	Inception	12/31/97	As reported	Recast	Contract	
			12/31/98	12/31/98	12/31/99	
Original Contract	12,769,663	-	12,769,663	12,769,663	12,769,663	
Modifications	-	-	167,678	167,678	229,991	
Contract Amount	12,769,663	-	12,937,341	12,937,341	12,999,654	
Estimated Costs	11,609,351	-	11,463,840	11,956,691	12,013,954	
Gross Profit	1,160,312	-	1,473,501	980,650	985,700	
Gross Profit %	9.09%	#DIV/0!	11.39%	7.58%	7.58%	
Percent complete			41.30%	39.60%	93.34%	
			Effect on gross Profit	(220,219)		

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99. The 11.39% profit margin was in excess of historical amounts and original estimates.

EXHIBIT E-6

EXHIBIT E-6

Job #:
 Job Name:
 Year Started:

456	Inception	12/31/97	As reported	Recast	Contract
Outlook Hillard			12/31/98	12/31/98	12/31/99
1998					
Original Contract	5,235,000	-	5,235,000	5,235,000	5,235,000
Modifications	-	-	145,745	145,745	365,748
Contract Amount	5,235,000	-	5,380,745	5,380,745	5,600,748
Estimated Costs	4,660,341	-	4,801,310	4,881,950	5,081,715
Gross Profit	574,659	-	579,435	498,795	519,033
Gross Profit %	10.98%	#DIV/0!	10.77%	9.27%	9.27%
Percent complete			56.55%	55.62%	100.00%
			Effect on gross Profit	(50,241)	

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99.

EXHIBIT E-7

EXHIBIT E-7

Job #:
Job Name:
Year Started:

457	Inception	12/31/97	As reported	Recast	Contract
Camp Hill	n/a	-	12/31/98	12/31/98	12/31/99
1998					
Original Contract	n/a	-	1,495,629	1,495,629	1,495,629
Modifications		-	-	-	-
Contract Amount	-	-	1,495,629	1,495,629	1,495,629
Estimated Costs	n/a	-	1,372,273	1,446,273	1,446,265
Gross Profit	#VALUE!	-	123,356	49,356	49,364
Gross Profit %	#VALUE!	#DIV/0!	8.25%	3.30%	3.30%
Percent complete			39.88%	37.84%	100.00%
			Effect on gross Profit		
				(30,518)	

Notes:

The job was recast using the actual gross profit/(loss) % at completion of the job.

EXHIBIT E-8

EXHIBIT E-8

Job #:
Job Name:
Year Started:

459					
Scott AFB					
1998					
	Inception	12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99
Original Contract	13,698,278	-	13,698,278	13,698,278	13,698,278
Modifications	-	-	-	-	6,073,737
Contract Amount	13,698,278	-	14,870,150	14,870,150	19,772,015
Estimated Costs	12,680,694	-	13,929,350	14,273,857	18,979,483
Gross Profit	1,017,584	-	940,800	596,293	792,532
Gross Profit %	7.43%	#DIV/0!	6.33%	4.01%	4.01%
Percent complete			43.27%	42.22%	98.53%
			Effect on gross Profit	(155,329)	

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99.

EXHIBIT E-9

EXHIBIT E-9

Job #:
 Job Name:
 Year Started:

460						
Germ Plasma						
1998						
	Inception	12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99	
Original Contract	15,500,000	-	15,500,000	15,500,000	15,500,000	
Modifications	-	-	65,000	65,000	655,581	
Contract Amount	15,500,000	-	15,565,000	15,565,000	16,155,581	
Estimated Costs	15,068,940	-	14,667,024	15,339,308	15,922,012	
Gross Profit	431,060	-	897,976	225,692	233,569	
Gross Profit %	2.78%	#DIV/0!	5.77%	1.45%	1.45%	
Percent complete			19.81%	18.94%	61.87%	
			Effect on gross Profit	(135,143)		

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99.

EXHIBIT E-10

EXHIBIT E-10

Job #:
Job Name:
Year Started:

[illegible]**Notes:**

The job was recast using the actual gross profit/(loss) % at 12/31/99.

EXHIBIT E-11

EXHIBIT E-11

Job #:
 Job Name:
 Year Started:

462					
Outlook-Westerville					
1998					
	Inception	12/31/97	As reported 12/31/98	Recast 12/31/98	Contract 12/31/99
Original Contract	5,589,900	-	5,589,900	5,589,900	5,589,900
Modifications	-	-	-	-	178,095
Contract Amount	5,589,900	-	5,589,900	5,589,900	5,767,995
Estimated Costs	5,213,830	-	5,218,140	5,503,816	5,679,439
Gross Profit	376,070	-	371,760	86,084	88,556
Gross Profit %	6.73%	#DIV/0!	6.65%	1.54%	1.54%
Percent complete			8.79%	8.33%	63.42%
			Effect on gross Profit	(25,507)	

Notes:

The job was recast using the actual gross profit/(loss) % at 12/31/99.

F

EXHIBIT F-1

EXHIBIT F-1

CCI CONSTRUCTION COMPANY, INC.
BALANCE SHEET – DECEMBER 31, 1997

ASSETS

	As Reported	Adjustments	As Restated
Current assets:			
Cash and cash equivalents	\$ 1,128,337	\$ -	\$ 1,128,337
Investments in marketable securities	3,702,992	-	3,702,992
Accounts receivable, trade:			
Customers:			
Current	8,230,674	-	8,230,674
Retained	1,121,610	-	1,121,610
Shareholder	-	-	-
Affiliates	3,485	-	3,485
Note receivable	22,569	-	22,569
Costs and estimated earnings in excess of billings on uncompleted contracts	1,072,281	(429,978)	642,303
Prepaid expenses	6,185	-	6,185
Shop inventory	<u>639</u>	=	<u>639</u>
Total current assets	<u>15,288,772</u>	<u>(429,978)</u>	<u>14,858,794</u>
Property and equipment:			
Automobiles and trucks	427,342	-	427,342
Furniture	553,587	-	553,587
Machinery and equipment	1,323,233	-	1,323,233
Other	<u>72,453</u>	=	<u>72,453</u>
	2,376,615	-	2,376,615
Less accumulated depreciation	<u>920,919</u>	=	<u>920,919</u>
	<u>1,455,696</u>	=	<u>1,455,696</u>
	<u>\$ 16,744,468</u>	<u>\$ (429,978)</u>	<u>\$ 16,314,490</u>

NOTE: Adjustments per "Contracts in Progress – Revised" schedule.

LIABILITIES AND SHAREHOLDER'S EQUITY

	As Reported	Adjustments	As Restated
Current liabilities:			
Accounts payable, trade:			
Vendors:			
Current	\$ 7,846,395	\$ -	\$ 7,846,395
Retained	1,078,950	-	1,078,950
Notes payable	815,781	-	815,781
Accrued loss on jobs	-	732,685	732,685
Accrued expenses	808,601	-	808,601
Taxes withheld and accrued	58,023	-	58,023
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>681,924</u>	<u>(346,703)</u>	<u>335,221</u>
Total current liabilities (all current)	<u>11,278,674</u>	<u>385,982</u>	<u>11,675,656</u>
Shareholder's equity:			
Common stock, \$1 par, 1,000 shares authorized;			
39 shares issued and outstanding	39	-	39
Capital in excess of par	9,758	-	9,758
Retained earnings	5,208,489	(815,960)	4,392,529
Unrealized gain on marketable securities	<u>236,508</u>	=	<u>236,508</u>
	<u>5,454,794</u>	<u>(815,960)</u>	<u>4,638,834</u>
	<u>\$ 16,744,468</u>	<u>\$ (429,978)</u>	<u>\$ 16,314,490</u>

NOTE: Adjustments per "Contracts in Progress – Revised" schedule.

EXHIBIT F-1

CCI CONSTRUCTION COMPANY, INC.
STATEMENT OF INCOME
Year Ended December 31, 1997

	Original	Adjustments	As Restated
Revenue	\$ 34,921,676	\$ (815,960)	\$34,105,716
Cost of contracts	<u>32,617,473</u>	=	<u>32,617,473</u>
Gross profit	2,304,203	(815,960)	1,488,243
General and administrative expenses	<u>1,954,380</u>	=	<u>1,954,380</u>
Income from operations	349,823	(815,960)	(466,137)
Other income	<u>357,056</u>	=	<u>357,056</u>
Net income (loss)	<u>\$ 706,879</u>	<u>\$ (815,960)</u>	<u>\$ (109,081)</u>

NOTE: Adjustments per "Contracts in Progress - Revised" schedule.

EXHIBIT F-2

EXHIBIT F-2

CCI CONSTRUCTION COMPANY, INC.
BALANCE SHEET – DECEMBER 31, 1998

ASSETS

	As Reported	Adjustments	As Restated
Current assets:			
Cash and cash equivalents	\$ 2,429,866	\$ -	\$ 2,429,866
Investments in marketable securities	631,481	-	631,481
Accounts receivable, trade:			
Customers:			
Current	5,964,311	-	5,964,311
Retained	1,822,224	-	1,822,224
Affiliates	365,756	-	365,756
Costs and estimated earnings in excess of billings on uncompleted contracts	6,341,726	(2,379,122)	3,962,604
Prepaid expenses	170,232	-	170,232
Shop inventory	<u>38,161</u>	=	<u>38,161</u>
Total current assets	<u>17,763,757</u>	<u>(2,379,122)</u>	<u>15,384,635</u>
Property and equipment:			
Automobiles and trucks	1,269,567	-	1,269,567
Furniture	851,738	-	851,738
Machinery and equipment	5,947,290	-	5,947,290
Other	<u>344,128</u>	=	<u>344,128</u>
	8,412,723	-	8,412,723
Less accumulated depreciation	<u>1,651,485</u>	=	<u>1,651,485</u>
	<u>6,761,238</u>	=	<u>6,761,238</u>
Other assets:			
Cash surrender value of officer's life insurance	55,453	-	55,453
Investments	<u>34,000</u>	=	<u>34,000</u>
	<u>89,453</u>	=	<u>89,453</u>
	<u>\$ 24,614,448</u>	<u>\$(2,379,122)</u>	<u>\$ 22,235,326</u>

NOTE: Adjustments per "Contracts in Progress – Revised" schedule.

LIABILITIES AND SHAREHOLDER'S EQUITY

	As Reported	Adjustments	As Restated
Current liabilities:			
Accounts payable, trade:			
Current	\$ 10,974,274	\$ -	\$ 10,974,274
Retained	2,180,967	-	2,180,967
Current portion of long-term debt	1,338,280	-	1,338,280
Accrued loss on jobs	-	1,826,956	1,826,956
Accrued expenses	333,060	-	333,060
Taxes withheld and accrued	91,601	-	91,601
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>288,208</u>	<u>(263,610)</u>	<u>24,598</u>
Total current liabilities	15,206,390	1,563,346	16,769,736
Long-term debt, net of current portion	<u>4,164,375</u>	=	<u>4,164,375</u>
Total liabilities	<u>19,370,765</u>	<u>1,563,346</u>	<u>20,934,111</u>
Shareholder's equity:			
Common stock, \$1 par, 1,000 shares authorized; 39 shares issued and outstanding	39	-	39
Capital in excess of par	9,758	-	9,758
Retained earnings	5,254,834	(3,942,468)	1,312,366
Accumulated other comprehensive income (loss), unrealized gain (loss) on marketable securities	<u>(20,948)</u>	=	<u>(20,948)</u>
	<u>5,243,683</u>	<u>(3,942,468)</u>	<u>1,301,215</u>
	<u>\$ 24,614,448</u>	<u>\$(2,379,122)</u>	<u>\$ 22,235,326</u>

NOTE: Adjustments per "Contracts in Progress - Revised" schedule.

EXHIBIT F-2

CCI CONSTRUCTION COMPANY, INC.
STATEMENT OF INCOME
Year Ended December 31, 1998

	Original	Adjustments	As Restated
Revenue	\$ 52,534,453	\$ (3,126,508)	\$49,407,945
Cost of contracts	<u>51,145,382</u>	=	<u>51,145,382</u>
Gross profit	1,389,071	(3,126,508)	(1,737,437)
General and administrative expenses	<u>1,505,700</u>	=	<u>1,505,700</u>
Income (loss) from operations	(116,629)	(3,126,508)	(3,238,137)
Other income	<u>175,670</u>	=	<u>175,670</u>
Net income (loss)	<u>\$ 59,041</u>	<u>\$ (3,126,508)</u>	<u>\$ (3,067,467)</u>

NOTE: Adjustments per "Contracts in Progress - Revised" schedule.